Halfords Group plc
Preliminary Results: Financial Year 2014

Halfords Group plc, the UK's leading retailer of automotive, cycling and leisure products and leading independent operator in garage servicing and auto repair, today announces its preliminary results for the 52 weeks to 28 March 2014 ("the period"). All numbers shown in this statement are before non-recurring costs, unless otherwise stated.

Group Financial Summary

	FY14 £m	FY13 £m	% change	Like-for-Like Revenues ("LFL") %
Total Group Revenue	939.7	871.3	+7.9	+6.5
Retail	*803.1*	*745.5*	*+7.7*	*+7.6*
Autocentres	*136.6*	*125.8*	*+8.6*	*-0.1*
Gross Margin				
Retail	*51.8%*	*53.3%*	*-144 bps*	
Autocentres	*64.4%*	*63.7%*	*+78bps*	
Group EBITDA	101.1	103.4	-2.3	
Profit Before Tax and non-recurring items	72.8	72.0	+1.1	
Basic Earnings Per Share, before non-recurring items	28.8p	27.7p	+4.0	
Profit Before Tax, after non-recurring items	72.6	71.0	+2.3	
Basic Earnings Per Share, after non-recurring items	28.6p	27.2p	+5.1	
Net Debt	99.6	110.6	-9.9	
Proposed Final Dividend Per Share	9.1p	9.1p	-	
Proposed Full-Year Dividend Per Share	14.3p	17.1p	-16.4	

Financial Highlights

- Group revenues up 7.9% (Q4 LFL: Retail: +9.9%; Autocentres +4.3%)
- Cycling LFL growth of 19.4% (Q4 Cycling LFL: +41.6%)
- Online Retail growth of +17.7% (Q4:+27.5%);
- Retail costs and margins in line with guidance
- Basic earnings per share up 4.0%
- Capital expenditure up 61.7% to £30.4m, supporting the first year of the Retail *Getting Into Gear* strategy
- Free cashflow of £39.5m, after a one-off tax settlement of £21.0m; Net Debt to EBITDA at 1.0:1

Business Highlights

- A year of Cycling underpinned by a major cycle-range refresh and an increased presence in the Parts, Accessories and Clothing market
- Strong results emanating from our *Service Revolution,* with a significant rise in customer-feedback scores
- 27 stores trading in the refreshed format as our *Stores Fit To Shop* rollout continued
- A new Retail website launched in November 2013 with a material increase in conversion
- New leadership for Autocentres focusing on colleagues and the customer experience

Matt Davies, Chief Executive, commented:
"This was a year of significant Retail sales growth and the start of a strategic investment programme designed to deliver sustainable profit growth over the medium term. Our actions resulted in a particularly strong performance in every element of our Cycling category, illustrating our leading and growing role in the market. Car Maintenance sales were also encouraging, especially against the backdrop of a mild winter. Within Autocentres new leadership is now in place as we look to grow profitability in that business.

In the first year of our *Getting Into Gear* strategy our targets presented a year ago have been achieved. We are getting better prepared to delight our customers both in-store and online and we're making good progress with our refreshed stores, our infrastructure and the product range. Despite challenging sales comparatives ahead, I now anticipate Halfords delivering a FY15* Group EBITDA ahead of FY13."

**Based on 52 weeks. FY15 will be reported on a 52 and 53-week basis.*

<u>Quarterly Performance</u>

	FY14 % change		Q4 FY14 % change	Q1-Q3 FY14 % change
TOTAL REVENUE				
Halfords Group	**+7.9**		**+10.3**	**+7.3**
Retail	+7.7		+9.8	+7.3
Autocentres	+8.6		+12.4	+7.5
LFL REVENUE				
Halfords Group	**+6.5**		**+8.9**	**+5.9**
Retail	+7.6		+9.9	+7.1
Cycling	*+19.4*		*+41.6*	*+16.1*
Car Maintenance	*+4.9*		*-0.5*	*+6.6*
Car Enhancement	*-0.1*		*+4.2*	*-0.9*
Travel Solutions	*+2.1*		*+1.3*	*+2.3*
Autocentres	-0.1		+4.3	-1.4

<u>FY15 Guidance (52 weeks)</u>

Retail Gross Margin	A decline of 25-75bps
Retail Operating Costs	+4-5%
Retail Capital Expenditure	c.£35m
Autocentres EBITDA	Up on FY14
Autocentres Capital Expenditure	c.£8m
Net Finance Costs	Down on FY14
Effective Tax Rate	21-22%

FY15 will be reported on a 52 and 53-week basis. FY15 gains the 2014 Good Friday compared to FY14, representing c.£2m of Retail sales. The 2015 Good Friday will also fall into the 53rd week of the financial year.

<u>Enquiries</u>

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Notes

1. Where appropriate, revenues denominated in foreign currencies have been translated at constant rates of exchange.
2. Like-for-like sales represent revenues from UK stores and centres, as well as Irish stores, trading for greater than 365 days.
3. All numbers shown in this statement are before non-recurring items, unless stated otherwise.
4. EBITDA denotes earnings before net finance costs, tax, depreciation, amortisation and non-recurring items.
5. Q4 FY14 represents the 11-week period ending 28 March 2014.

Results Presentation

A presentation for analysts and investors will be held today starting at 10am at the Grange St. Paul's Hotel, 10 Godliman Street, London EC4V 5AJ. Attendance is by invitation only. A live webcast of the presentation will be available at www.halfordscompany.com.

Forthcoming Newsflow

Halfords Group plc will publish its first-quarter interim management statement on 10 July 2014.

Notes to Editors

www.halfords.com
www.halfordscompany.com
www.halfordsautocentres.com

Halfords is the UK's leading retailer of automotive, cycling and leisure products and, through Halfords Autocentres, also one of the UK's leading independent car servicing and repair operators. Halfords customers shop at 465 stores in the UK and Republic of Ireland and at halfords.com for pick-up at their local store or direct home delivery. Halfords Autocentres operates from 303 sites nationally and offers motorists dealership-quality MOTs, repairs and car servicing at affordable prices.

The Halfords group strategy is based on three pillars:

- *Supporting Drivers Of Every Car*
- *Inspiring Cyclists Of Every Age*
- *Equipping Families For Their Leisure Time*

The *Getting Into Gear strategy* for the Retail business is based on executing in five key areas in order to deliver a significantly-enhanced customer experience:

- *Service Revolution*
- *The H Factor*
- *Stores Fit to Shop*
- *21st Century Infrastructure*
- *Click with the Digital Future*

Halfords employs approximately 12,000 colleagues and sells around 9,000 product lines in store, increasing to around 30,000 Retail products online. The Retail offering encompasses significant ranges in car parts, cycles, in-car technology, child seats, roof boxes, outdoor leisure and camping equipment. Halfords own brands include *Apollo* and *Carrera* cycles, augmented by exclusive UK distribution rights for the premium-ranged *Boardman* cycles and accessories. In outdoor leisure, we sell a premium range of camping equipment including brands such as *Vango* and *Outwell*. Halfords offers customers expert advice and a fitting service called '***we***fit' for car parts, child seats, satellite navigation and in-car entertainment systems, and a '***we***repair' service for cycles.

Cautionary Statement

This report contains certain forward-looking statements with respect to the financial condition, results of operations, and businesses of Halfords Group plc. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, Halfords Group plc has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

Chief Executive's Statement

Halfords Retail delivered a strong performance in the year as the business repositions to offer a significantly-enhanced customer experience. The work undertaken in areas such as stock availability, product ranges and marketing was accompanied by a material uplift in investment. The Retail categories are in better shape and the Retail management team has been strengthened by several key appointments. *Getting Into Gear* has got off to a busy start and the early signs are encouraging; there will be much work to do over the coming years. New leadership of Autocentres is aligned with the Group's service-based priorities so that, in the fullness of time, Halfords will offer an even better end-to-end customer experience.

Summary of Group Results

Halfords Retail produced a strong sales performance with like-for-like ("LFL") revenue growth of 7.6% and online growth of 17.7% reflecting a number of factors including improved stock availability, colleague engagement, stronger product ranges and a more-effective marketing approach. Average weather conditions were also more favourable for Cycling during the year. Despite improvements in the second half that delivered 2.0% LFL sales growth, the Autocentres performance did not reflect its market-share potential over the full year, with FY14 revenues increasing by 8.6%, accompanied by flat LFL sales; new leadership of Autocentres was appointed at the end of the year.

Sales of £939.7m were up 7.9% and up 6.5% on a LFL basis. Group gross margin fell by 110 basis points to 53.7%. Total operating costs rose by 6.9% primarily as a result of the increase in store-colleague investment and incentives. Investment in the expansion of our Autocentres business continued as the business added 20 centres (net). Group earnings before finance costs, tax and non-recurring items ("EBIT") were £77.8m, which compares with £78.1m in the prior year.

Earnings before non-recurring items, finance costs, depreciation and amortisation ("EBITDA") were down 2.3% to £101.1m. Profit before tax and non-recurring items was £72.8m and earnings per share before non-recurring items were 28.8p, up 1.1% and 4.0% respectively.

Group inventory and capital expenditure continued to be managed tightly, although the planned levels of additional Retail stock to improve on-shelf availability led to a 12.8% increase in Group inventories on the prior period; Autocentres inventory was up £0.1m on the prior year. Against the backdrop of a significant uplift in investment and a one-off tax settlement of £21.0m, the cashflow performance was robust with free cashflow of £39.5m generated against £71.8m in the prior year. Net debt at the end of the year was down £11.0m at £99.6m, with a non-lease-adjusted 12-month net debt: EBITDA ratio of 1.0:1 versus 1.1:1 in the prior period.

The Board has recommended a final dividend of 9.1 pence per share (FY13: 9.1 pence), taking the full-year dividend to 14.3 pence per share. If approved, the final dividend will be paid on 1 August 2014 to shareholders on the register at the close of business on 4 July 2014. In the light of the guidance given twelve months ago, the Board will now look to maintain a c.2x dividend cover over the medium term, growing full-year dividends broadly in line with earnings per share. Given the operating cash flow profile of the business the Board also now anticipates the ratio of future interim and final dividend payments to move toward 30:70.

Operational Review: Retail

Sales were £803.1m, up 7.7% on the previous year and 7.6% on an LFL basis.

In FY14 Cycling was the largest Retail category by sales and was the standout performer throughout the year. LFL growth of 19.4% reflected improved execution, a successful Christmas for children's bikes, more-conducive weather conditions and sustained interest in Cycling as a leisure activity. The cycle offer was enhanced during the year, with refreshes of the *Apollo* and *Boardman* ranges particularly engaging customers. Representing over one third of premium-cycle sales, *Cycle-To-Work* revenues grew by 14.8%. Halfords also implemented a major acceleration of its presence in the Cycling Parts, Accessories and Clothing market ("PACs"). This activity was combined with the appointment of additional Cycling capability, including the creation of a Head of PACs role and, with a more-effective marketing approach, every Cycling sub-category grew, including 15.8% growth in PACs, 28.6% growth in Cycle Repair and 29.9% growth in Premium Bike sales.

LFL sales of Car Maintenance products and services grew by 4.9%. Sales in the second half were hampered by mild winter conditions versus a cold and snowy prior year. However the sale and fitting of bulbs, blades and batteries ("3Bs") again represented the largest single element of the category and growing demand emanated from the building of awareness of the ***we***fit service, this year via the TV and radio '*Cheaper Than A Favour*' campaign.

Car Enhancement LFL revenues decreased by 0.1%. Representing nearly a quarter of category sales, Car Cleaning revenues grew by 13.8%, boosted by the re-merchandising of the range to emphasise the strength of Halfords' branded offer. Key price points were also targeted to improve value perception. Sat Nav sales, down 8.1% in the year, continued to be impacted by the effects of a structurally-declining market, whilst Audio sales grew 1.1%.

Travel Solutions LFL revenues increased by 2.1%, with additional clearance and more-compelling offers driving improved sales of camping and travel-equipment products.

Online Retail revenues grew by 17.7% and represented 11.3% of total Retail sales (FY13: 10.3%). The growth was driven by the first phase of *Halfords.com*'s relaunch in November 2013, leading to substantially-increased conversion rates. Whilst over half of online Retail sales were represented by the Cycling category, a consistent 88% of online orders were collected in store during the period.

In the year total in-store service income included within all of the above categories increased by 17.4% to £24.3m, with the majority of revenues flowing from 3Bs fitting and Cycle Repair.

Operational Review: Autocentres

Total Autocentres revenues were up 8.6% and, on a LFL basis, down 0.1%. Despite improvements in the second half, this performance reflected operational and market challenges the business faced. 23 new Autocentres were opened and three were closed in the year, taking the total number of Autocentre locations to 303. Halfords is committed to the continued investment in the Autocentres business to secure medium-term growth, though the business plans to refocus the centre-opening programme on fewer and larger new centres. Halfords will continue to close sub-optimal centres as a matter of course.

Operational Review Summary

The Halfords Retail performance was strong, driven by self-help actions and, although weather conditions were favourable for the Cycling category, they were adverse for Car Maintenance. The results illustrate how Halfords is beginning to build both its proposition and a significantly-enhanced Retail customer experience. With Autocentres focusing on the enhancement of its service proposition, underpinned by further investment, the business will deliver a more consistent and engaging experience for its Autocentre customers.

Halfords Business Review

Halfords' mission is to *Help and Inspire Customers With Their Life on the Move* within the following categories: *Supporting Drivers of Every Car*, *Inspiring Cyclists of Every Age* and *Equipping Families for their Leisure Time*.

Equipping Families for their Leisure Time gives the flexibility to extend the range, introduce innovative products and leverage space. However the vast majority of management's focus is currently on Auto and Cycling as these markets are significant and, with strong execution, management anticipates sustainable opportunities for growth.

The Retail strategy, *Getting Into Gear*, is based on the following five elements designed to significantly enhance the customer experience:

1. *Service Revolution* - introducing a step change in customer service across Halfords stores
2. *The H Factor* - reasserting the business' proposition authority to *Support Drivers of Every Car, Inspire Cyclists of Every Age* and *Equip Families for Their Leisure Time*
3. *Stores Fit to Shop* **-** investing to raise the Halfords store estate to a standard the business is proud of
4. *21st Century Infrastructure* - systems and infrastructure to support service and sales
5. *Click with the Digital Future* - creating a service-led digital proposition

Service Revolution
Highlights include a new recruitment process that involves centralised online application, telephone screening, interviews in store with role play and an in-store audition before an appointment is made. Since launch nearly 55,000 applicants were screened for around 1,000 vacancies. This new approach significantly raised the quality of new colleagues.

The *3-Gears* training programme was launched with virtually all eligible colleagues having completed Gear 1 by the end of the year. A number of colleagues began Gear 2 before the end of the year, the technical training module that specialises in Auto or Cycling. 50% of colleagues are anticipated to complete Gear 2 by March 2015. Two colleagues per store will pass the Gear 3 guru level by the end of FY16.

Colleague engagement is central to the *Getting Into Gear* strategy, so it was particularly encouraging to see an increase in the latest Group colleague engagement survey score to 80% (FY13 77%). The result was underpinned by the good news that Halfords was recently voted as one of the 25 best big companies to work for in the UK (see *The Sunday Times Best Companies To Work For 2014).* These scores were reflected in a rise in the Retail net promoter score to 72% from a run rate of around 55% in the prior year.

The H Factor
A revitalisation of the Retail product range was enhanced by the appointment of a new Commercial Director in September 2013. Examples of the refresh in the period included upgraded ranges of *Boardman* and *Apollo* cycles, trials of cycle finance in-store, extended ranges online, the introduction of wearable fitness technology and a revised private-label hierarchy that included the new *Halfords Essentials* brand.

The business also focused on the balance between third-party and private-label brands. The third-party *Tenn* brand in Cycling clothing was introduced in the period, whilst the upweighted focus on *Kärcher* pressure washers compared against a reduced focus on the *Halfords*-branded offer in Car Cleaning. Global brands such as *General Electric* were also introduced within the Car Maintenance category. Attention has been paid to the execution of marketplace offers at the front of store, as well the introduction of interactive merchandising.

Stores Fit to Shop
Three refreshed stores were opened at the end of July 2013 wherein Halfords created a modern, engaging and friendlier store environment that encourages browsing and more interaction with colleagues. At the period end, 27 stores were trading in the new format, with a further c.50 stores planned for refresh in the new financial year. The stores refreshed so far are delivering results in line with management's plans and investment criteria. Halfords will continue improving its portfolio of Cycling departments by the end of FY16 after 100 were refreshed in the period.

21st Century Infrastructure
A key focus within the *Getting Into Gear* programme is infrastructure, particularly across IT systems and capability. Examples of the progress made include the upgrade to SAP, the core Retail operating system, completed in May 2014. New chip & PIN pads in store saved customers an average of 19 seconds per transaction and to help colleagues the business installed laptop computers in stores to make it easier to progress through the *3-Gears* training programme. New VOIP technology across the store estate also enabled colleagues to serve customers more effectively and at reduced cost.

The appointment of a new Supply Chain Director was followed by a trial to deliver more frequently to store, benefitting stock availability and potentially saving a significant element of courier cost related to the *Click & Collect* proposition.

Click with the Digital Future
The goal of *Click with the Digital Future* is to create a much-improved online and omnichannel Retail experience. Phase One of the website relaunch went live in November 2013, with a different tone of voice to make the website more emotionally engaging and inspiring. A new home page included more-intuitive navigation to help all customers find what they are looking for more easily and with far fewer clicks. The system of checkout was reshaped to help customers complete their transaction more simply; this was designed to reduce the risk of

abandoned baskets. Customers also now pay for their entire *Click and Collect* transactions in store. Further enhancements will be completed in due course, including social-network interactions and upgraded ‘my account’ functionality.

Autocentres

The investment plan continued as new centres were opened and the business looks to improve the consistency of in-centre service. Expenditure was directed to improving the infrastructure, from new IT systems to more-efficient processing systems, enabling more effective centre management. As service is central to the Halfords strategy, colleague incentives were changed in the year to embed customer-service metrics, such as net promoter scores; colleague engagement continued to improve this year.

This customer-centric plan is vital as the business extends its differentiation from key competitors. Autocentres will also better leverage the relationship with the Retail stores. Andy Randall was appointed in March 2014 to lead the business and is focused on delivering a significantly-enhanced experience for Autocentre customers.

Community Engagement

This was the first year of a major step-up in activity designed to leverage Halfords’ specialist credentials in local areas through community engagement.

In FY14 over 20,000 children and parents attended Kids’ Bike Workshops in store to learn the basics of how to look after their bike, with 97% of parents likely to recommend the summer workshop to others. In FY15, together with the Easter holiday, stores will run the workshop in the summer and during the October half-term week, promoted through schools and links with children's organisations such as *UK Youth* and *Children’s University*. Halfords now partners with the *Scouts Association* and supports the *Cub Cyclist Activity* badge. Building on this success, Halfords will also offer a tailored workshop in schools, focused on year-six pupils as they progress through *Bikeability* (formerly called cycling proficiency), as well as teachers seeking additional life skills to support their pupils' transition to senior school.

The partnership with *Re~Cycle* (the charity that sends unwanted bikes to Africa) went from strength to strength. In FY14 Halfords helped *Re~Cycle* double the number of containers sent to Africa through the world's largest bike trade-in event, with over 10,000 unwanted bikes donated at Halfords stores, diverting over 150 tonnes of waste to a sustainable alternative and generating £1.5m in new bike sales. In addition to more trade-in events in FY15, Halfords will also trial accepting bike donations at over 75 stores and will continue fundraising to support the £10 it costs to send a bike to Africa, with over £90,000 raised so far. In FY15 stores will also receive 'community' hours to support additional local-community activity, helping them to build closer relationships with their local communities.

Halfords has also been confirmed as the Official Mechanics Partner for the 2014 *Sky Ride Big Bike* series, spanning 14 events nationwide and supporting over 100,000 cyclists this summer. These free one-day events offer cyclists of all ages and abilities the chance to ride their bike on traffic-free streets or on cycle paths and parks in the heart of towns and cities across Britain. Halfords cycle mechanics will be a key part of the day, keeping cyclists on the move assisting with essential adjustments, cabling and tube replacements.

Halfords is also trialling a Cycle Repair Academy in Onley Prison, where a number of prisoners close to their release dates are being trained as bike mechanics with a view to being employed in Halfords stores, once released. This programme will provide Halfords with potentially very loyal, trained and motivated colleagues whilst at the same time supporting the broader goal of rehabilitation of offenders.

Current Activity

As Halfords becomes more of a Cycling business in the first half of the year, a *Summer Of Cycling* lies ahead, with major launches imminent within the Halfords cycle range. The fastest growing and second-largest volume brand in the range, *Carrera*, will undergo a complete refresh in the summer. I am particularly pleased to see *Kona* and *Mongoose,* two formidable global Cycling brands, added to our growing list of superb cycle options. The *Pinarello* brand of cycles will soon be available at 43 stores with around 50 models online. These launches will coincide with a busy summer of Cycling events, with the recent Giro d'Italia *Big Start* in Belfast, the Tour de France's *Le Grande Départ* in Yorkshire in July and the Commonwealth Games in Glasgow in July and August.

Halfords Retail's auto business also has a busy period ahead, with the launch of *Car Parts Direct* by the end of summer 2014, wherein around 130,000 car-part SKUs will be available for prompt pick-up at Halfords stores or through home delivery. A number of smaller accretive opportunities will be progressed, including the sale of powersport and leisure batteries, the sale online of car registration plates as well as the ranging of scooter helmets.

On behalf of the Board, I would like to thank all colleagues for their immense contribution and commitment to the progress of Halfords and the implementation of the plan to reposition the business. It has been a pleasure to work with you over the past year.

Matt Davies
Chief Executive, 21 May 2014

CHIEF FINANCIAL OFFICER'S REPORT

Halfords Group plc ("the Group" or "Group")

Reportable Segments

Halfords Group operates through two reportable business segments:

- Halfords Retail, operating in both the UK and Republic of Ireland; and
- Halfords Autocentres, operating solely in the UK.

All references to Group represent the consolidation of the Halfords ("Halfords Retail"/"Retail") and Halfords Autocentres ("Halfords Autocentres"/"Autocentres") trading entities.

The FY14 accounting period represents trading for the 52 weeks to 28 March 2014 ("the year"). The comparative period FY13 represents trading for the 52 weeks to 29 March 2013 ("the prior year"). All items in this report are shown before non-recurring items unless otherwise stated.

Financial Results

	FY14 £m	**FY13 £m**	**Change**
Group Revenue	939.7	871.3	+7.9%
Group Gross Profit	504.2	477.1	+5.7%
Group EBIT*	77.8	78.1	-0.4%
Group EBITDA**	101.1	103.4	-2.3%
Net Finance Costs	(5.0)	(6.1)	-18.0%
Profit Before Tax and non-recurring items	**72.8**	72.0	**+1.1%**
Profit Before Tax, after non-recurring items	72.6	71.0	+2.3%

** EBIT denotes earnings before net finance costs, tax and non-recurring items*
*** EBITDA denotes earnings before net finance costs, tax, depreciation, amortisation and non-recurring items*

Group revenue in FY14, at £939.7m, was up 7.9% and comprised Retail revenue of £803.1m and Autocentres revenue of £136.6m. This compared to FY13 Group revenue of £871.3m, which comprised Retail revenue of £745.5m and Autocentres revenue of £125.8m. Group gross profit at £504.2m (FY13: £477.1m) represented 53.7% of Group revenue (FY13: 54.8%), reflecting a decrease in the Retail gross margin of 144 basis points ("bps") to 51.8% and an increase in the Autocentres gross margin of 78 bps to 64.4%.

Total Operating Costs before non-recurring items increased to £426.4m (FY13: £399.0m) of which Retail represented £341.0m (FY13: £323.4m), Autocentres £83.7m (FY13: £73.8m) and unallocated costs £1.7m (FY13: £1.8m). Unallocated costs represent amortisation charges in respect of intangible assets acquired through business combinations (the acquisition of *Nationwide Autocentres Ltd* in February 2010), which arise on consolidation of the Group.

Group EBITDA fell 2.3% to £101.1m (FY13: £103.4m), whilst net finance costs were £5.0m (FY13: £6.1m).

Group Profit Before Tax and non-recurring items for the year was up 1.1% at £72.8m (FY13: £72.0m).

Net non-recurring expenses of £0.2m (FY13: £1.0m) during the year represented asset impairment costs of £0.4m to support the *Stores Fit To Shop* initiative and non-recurring income of £0.2m from the partial release of the *Focus* lease guarantee provision, recognised as a non-recurring cost in FY11, resulting from better than anticipated settlements.

Group Profit Before Tax in the year after non-recurring items was £72.6m (FY13: £71.0m).

Halfords Retail

	FY14 £m	FY13 £m	Change
Revenue	803.1	745.5	+7.7%
Gross Profit	416.2	397.0	+4.8%
Gross Margin	51.8%	53.3%	-144bps
Operating Costs	(341.0)	(323.4)	-5.4%
EBIT before non-recurring items	**75.2**	**73.6**	**+2.2%**
Non-recurring expense	(0.2)	(1.0)	-80.0%
EBIT after non-recurring items	75.0	72.6	+3.3%
EBITDA before non-recurring items	**93.6**	**94.6**	**-1.1%**

Revenue for the Retail business of £803.1m reflected, on a constant-currency basis, a like-for-like ("LFL") sales increase of 7.6%. Non-LFL stores contributed £3.5m revenue in the year, with total revenue increasing 7.7%.

Cycling LFL revenues were up 19.4% reflecting improved execution, sustained interest in Cycling as a leisure activity, a successful Christmas for children's bikes, cycle-range refreshes and the benefit of focused marketing, driving strong premium-bike and accessory sales; Cycle Repair LFL revenues increased by 28.6%. The category also benefitted from favourable weather conditions compared to the prior year.

Car Maintenance LFL revenues sales increased by 4.9% in the year supported by the strong momentum in the fitting and sale of bulbs, blades and batteries ("3Bs"). Mild winter weather conditions impacted demand for winter maintenance products and 3Bs, although the number of 3B fits was up 11.5% in the year with 3B-fitting revenues making up 49.6% of total in-store service income.

Car Enhancement LFL revenues were down 0.1%. Car Cleaning sales were up 13.8% supported by better merchandising to emphasise the strength of the Halfords branded offer. Audio continued to grow, this time by 1.1%. Although the Sat Nav category remained challenged, with sales down 8.1%, Halfords' value share in the 12 months to March was maintained.

Travel Solutions LFL revenues increased by 2.1%, with enhanced-clearance activity and more-compelling offers driving improved sales of camping and travel equipment.

Revenues for the Retail business are split by category below.

	FY14 (%)	FY13 (%)
Cycling	32.8	29.6
Car Maintenance	31.8	32.6
Car Enhancement	23.1	24.9
Travel Solutions	12.3	12.9
Total	**100.0**	**100.0**

Gross profit for the Retail business at £416.2m (FY13: £397.0m) represented 51.8% of sales, 144 bps down on the prior year (FY13: 53.3%), in line with guidance. Higher sales volumes in lower-margin premium bikes, the launch of third-party branded Cycling parts, accessories and clothing ("PACs"), along with the impact of a mild winter on the higher-margin Car Maintenance category drove the reduction in margin, as did a more aggressive clearance and promotional approach across the categories.

Management anticipates a 25-75 bps decrease in Retail gross margin in FY15, primarily reflecting the mix effect emanating from the disproportionate strength of the lower-margin Cycling category. The decline is also a result of a switch of various cycle supplies to Halfords from duty-free Cambodia to Vietnam. This move has been designed to assure supply, given ongoing and increasing levels of significant industrial action in Cambodia. The demand for cash-accretive, margin-dilutive products such as PACs and flat wiper blades will continue whilst management will focus on the pricing of the Halfords wiper-blade offer as well as dozens of key-value-indicator products.

Operating Costs before non-recurring items were £341.0m (FY13: £323.4m), up 5.4% on the prior year and in line with guidance. The breakdown is set out below:

	FY14 £m	**FY13 £m**	**Change**
Store Staffing	92.4	85.1	+8.6%
Store Occupancy	139.7	140.1	-0.3%
Warehouse & Distribution	33.7	28.5	+18.2%
Support Costs	75.2	69.7	+7.9%
Total Operating Costs before non-recurring items	**341.0**	**323.4**	**+5.4%**

Strong trading volumes led to incremental investment in store hours and increased incentive payments. These, plus the uplift in national minimum wages contributed to the increase in Store Staffing costs by 8.6%. The impact of the *3-Gears* training programme on Store Staffing costs this year was immaterial. With an increase in minimum weekly-contracted hours, the number of Retail colleagues fell by around 1,000 during the year to around 9,000, although there was a material increase in the number of full-time equivalent colleagues.

Store Occupancy costs decreased by 0.3% year on year. Inflationary increases in utilities and investment in store repairs were offset by continued savings from rent negotiations and surrender payments, plus depreciation, given the profile of the store portfolio.

Warehouse & Distribution costs increased by 18.2% driven by the surge in store and, in particular, online volumes, as well as increases in transport and utility costs. A number of service-focused trials were executed during the year, including out-of-hours deliveries and more-frequent store deliveries. The cut-off time in relation to the online *Click & Collect* proposition recently moved from 3pm the day before to 6pm.

Support Costs rose by 7.9%. This reflected increased activity associated with the change programmes *Click with the Digital Future* and *21st Century Infrastructure* as well as the launch of both the extended PACs range and the enhanced Retail website. The increase also reflected the up-weighted marketing investment to support higher sales volumes. Increases in payroll costs, reflecting the annualisation of headcount increases in FY13 and the strengthening of the senior management team were offset by savings in recruitment costs following the move to bring recruitment of store colleagues in-house. Given the performance of the business over the period, incremental colleague incentive payments were accrued for payment.

Management anticipates a 4-5% increase in Retail operating costs in FY15. A significant proportion of this increase is dependent on volumes/performance. Major investments will include Store Labour costs associated with potential increased volumes as well the pay award as part of the *3-Gears* training programme. Increased volumes have the potential to inflate Warehouse & Distribution costs and depreciation is set to increase, given the material uplift in capital expenditure versus prior periods. One-off operating cost investments in c.50 refreshed stores in FY15 will also be notable.

Halfords Autocentres

	FY14 £m	FY13 £m	Change
Revenue	136.6	125.8	+8.6%
Gross Profit	88.0	80.1	+9.9%
Gross Margin	64.4%	63.7%	+78 bps
Operating Costs	(83.7)	(73.8)	+13.4%
EBIT	**4.3**	**6.3**	**-31.7%**
EBITDA	**7.5**	**8.8**	**-14.8%**

There were no non-recurring items related to the Autocentres business in either year presented.

Autocentres generated total revenues of £136.6m (FY13: £125.8m), an increase of 8.6% on the prior year with a LFL revenue decline of 0.1%. This performance reflected the operational and market challenges faced by the business. LFL tyre revenues increased by 4.7% and represented 16.0% of total LFL revenues. Online-booking revenues in the year grew 43.7% versus the prior period.

Gross profit at £88.0m (FY13: £80.1m) represented a gross margin of 64.4% against a prior-year margin of 63.7% driven by reduced reliance on affiliate-driven tyre sales and stronger core Service, MOT and Repair margins, underpinned by consistent improvements in parts buying.

Autocentres' EBIT was down 31.7% at £4.3m (FY13 £6.3m) as a result of revenue growth outweighed by operating costs and the investments made for future growth. Operating costs increased due to the centre-opening programme together with the ongoing expansion of the support structure. Halfords is committed to the continued investment in the Autocentres business to secure medium-term growth, though the business plans to slow down the centre-opening programme from the prevailing 20-30 new centres per year to 10-15 in the medium term by opening fewer, larger centres.

On the basis of an anticipated material uplift in LFL sales, management anticipates Autocentres' EBITDA to increase in FY15.

Portfolio Management

The Retail store portfolio at the end of the year comprised 465 stores (end of FY13: 466).

The following table outlines the changes in the Retail store portfolio over the year:

	Number	Stores
Relocations	2	Newport, Weston-Super-Mare
Re-gears	13	South Shields, Telford, Wakefield, Trowbridge, Dewsbury, Doncaster, Oldham, Edinburgh (Leith), Waterlooville, Stoke (Fenton), Grantham, Torquay, Bangor
Downsizes	4	Cardiff (Newport Road), Cannock, Chadwell Heath, Eastbourne
Openings	1	*Sky* headquarters (Osterlay)
Closures	2	Felixstowe, Glasgow Shettlestone

A number of further rightsizes and relocations will be completed in due course, including Altrincham, Bedford, Perth, Workington and Thanet (Margate).

23 new Autocentres were opened and three (Croydon, Preston and Ilford) were closed in the year, taking the total number of Autocentre locations to 303 as at 28 March 2014.

With the exception of nine long leasehold and two freehold properties within Autocentres, the Group's operating sites are occupied under operating leases, the majority of which are on standard lease terms, typically with a 5 to 15-year term at inception and with an average lease length of c.7 years.

Net Non-Recurring expenses

The following table outlines the components of the non-recurring expenses incurred in the year:

	FY14 £m	**FY13 £m**
Onerous lease charges	-	(1.2)
Asset impairment charges	(0.4)	(0.8)
Release of *Focus* lease-guarantee provision	0.2	1.0
Net non-recurring expenses	**(0.2)**	**(1.0)**

£0.4m of assets from certain stores were impaired in the year as a result of the investment in the *Stores Fit To Shop* initiative (FY13: £0.8m).

In FY11, an exceptional charge of £7.5m was recognised in respect of a provision for property leases to which Halfords was a guarantor, triggered by the demise of the *Focus DIY* retail chain. At 28 March 2014 the provision was £0.2m, reflecting the settlement of a number of leases and utilisation for on-going rent, insurance and service charges. Whilst there were on-going associated rental costs, there was a release of £0.2m of the provision in the year. £0.2m of this provision remained as at 28 March 2014 and is anticipated to be utilised in FY15.

Finance Expense

The net finance expense for the year was £5.0m (FY13: £6.1m). The expense includes £0.2m of accelerated amortisation of issue costs in the current year following completion of debt facility refinancing in September 2013. The new, reduced revolving credit facility expires in November 2017. An element of the net finance expense also relates to the crystallisation of a number of prior-year tax computations in the year.

Management anticipates a decline in the FY15 finance expense versus FY14.

Taxation

The taxation charge on profit for the financial year was £17.1m (FY13: £18.3m), including a £0.1m charge (FY13: £0.1m) in respect of tax on non-recurring items. The full-year effective tax rate of 23.5% (FY13: 25.7%) was higher than the UK corporation tax rate (23.0%) principally due to the non-deductibility of depreciation charged on capital expenditure and other permanent differences arising in the year.

A number of prior-year outstanding tax computations were settled during the year and accounted for a £21.0m cash outflow (being tax plus interest). The outstanding tax positions had been provided for in prior periods with the provisions being utilised against the tax payments.

Management anticipates an effective tax rate of 21-22% in FY15 and no one-off tax payments.

Earnings Per Share ("EPS")

Basic EPS before non-recurring items was 28.8 pence (FY13: 27.7 pence), a 4.0% increase on the comparable year. Basic EPS after non-recurring items was 28.6 pence (FY13: 27.2 pence). Basic weighted-average shares in issue during the year were 194.0m (FY13: 194.3m).

Dividend

The Board has recommended a final dividend of 9.1 pence per share (FY13: 9.1 pence), taking the full-year dividend to 14.3 pence per share. If approved, the final dividend will be paid on 1 August 2014 to shareholders on the register at the close of business on 4 July 2014. In the light of the guidance given twelve months ago, the Board will now look to maintain a c.2x dividend cover over the medium term, growing full-year dividends broadly in line with earnings per share. Given the operating cash flow profile of the business the Board also anticipates the ratio of future interim and final dividend payments to move toward 30:70.

Capital Expenditure

Capital investment in the year totalled £30.4m (FY13: £18.8m) comprising £24.4m in Retail and £6.0m in Autocentres. Consistent with prior years, management adopted a prudent approach with regard to capital investment and focused on investments generating material returns in line with the *Getting Into Gear* strategy.

Within Retail, £13.9m (FY13: £5.8m) was invested in stores, including 23 store refreshes. The investment also reflected refresh-based relocations and right-size activity as well as general capital spend relating to store roofing, flooring and security. By the end of FY14, 27 stores were trading in the refreshed format in line with the *Stores Fit To Shop* initiative. Additional investments in Retail infrastructure included a £9.7m investment in IT systems, such as development of the online Retail proposition and an upgrade of the core SAP operating system. The Support Centre also attracted a small element of refresh investment.

Within Autocentres a further £6.0m (FY13: £5.6m) was invested to drive the centre roll-out plan and upgrade centre equipment, especially in relation to the delivery of the tyre–fitting proposition. Expenditure was directed to improve other infrastructure elements, from a refreshed website to more-efficient IT processing systems, enabling more effective customer-focused centre management.

Management continues to anticipate an investment of around £100m in Retail capital expenditure in the three-year period to the end of FY16. Timing of investments such as the SAP upgrade reflected the shortfall in the FY14 expenditure versus guidance. FY15 Retail capital expenditure is anticipated to amount to c.£35m. Autocentres' capital expenditure in FY15 is anticipated to be c.£8m, the increase reflecting incremental investment in property and equipment, diagnostics and IT systems.

Inventories

Group inventory held at the year end was £150.2m (FY13: £133.2m), in line with guidance; the increase was primarily Cycling-related. Stock continued to be managed tightly and the planned levels of additional Retail stock increased on-shelf availability to 98.3%. Autocentres inventory was £1.4m (FY13: £1.3m). The Autocentres business model is such that only modest levels of inventory are held within the centres, with most parts being acquired on an as-needed basis.

Cashflow and Borrowings

The Group continued its track record of robust cash generation. Cash generated from operating activities in the year was £67.5m (FY13: £93.5m). After taxation, capital expenditure and net finance costs, free cashflow of £39.5m (FY13: £71.8m) was generated. The reduced cashflow performance reflected the upweighted levels of capital and inventory investment in the year and also included the settlement of £21.0m of prior-year outstanding tax computations.

Group net debt of £99.6m (FY13 £110.6m) represented a decline of 9.9% with a non-lease-adjusted 12-month net debt: EBITDA ratio of 1.0:1 versus 1.1:1 in the prior year. A new £200m revolving credit facility was secured in the year, expiring in November 2017.

Principal Risks and Uncertainties

The Board considers risk assessment, identification of mitigating actions and internal control to be fundamental to achieving Halfords' strategic corporate objectives. In the Annual Report & Accounts the Board sets out what it considers to be the principal commercial and financial risks to achieving the Group's objectives. The main areas of potential risk and uncertainty in the balance of the financial year are described in note 3 to the condensed consolidated preliminary financial statements. These include:

- Economic risks
- Business strategy risks
- Competitive risks
- Compliance
- Changing customer preferences
- Reliance on foreign manufacturers
- Product and service quality
- Information technology systems and infrastructure
- Dependence on key management personnel

Specific risks associated with performance include Christmas trading as well as weather-sensitive sales, particularly within the Car Maintenance and Cycling categories in the Retail business.

Andrew Findlay
Chief Financial Officer, 21 May 2014

CONSOLIDATED INCOME STATEMENT

For the period		52 weeks to 28 March 2014			52 weeks to 29 March 2013		
		Before Non-recurring Items	**Non-recurring items (note 4)**	**Total**	Before Non-recurring Items	Non-recurring items (note 4)	Total
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Revenue		**939.7**	**-**	**939.7**	871.3	-	871.3
Cost of sales		**(435.5)**	**-**	**(435.5)**	(394.2)	-	(394.2)
Gross profit		**504.2**	**-**	**504.2**	477.1	-	477.1
Operating expenses	2	**(426.4)**	**(0.2)**	**(426.6)**	(399.0)	(1.0)	(400.0)
Results from operating activities	3	**77.8**	**(0.2)**	**77.6**	78.1	(1.0)	77.1
Finance costs	5	**(5.2)**	**-**	**(5.2)**	(6.3)	-	(6.3)
Finance income	5	**0.2**	**-**	**0.2**	0.2	-	0.2
Net finance expense		**(5.0)**	**-**	**(5.0)**	(6.1)	-	(6.1)
Profit before income tax		**72.8**	**(0.2)**	**72.6**	72.0	(1.0)	71.0
Income tax expense	6	**(17.0)**	**(0.1)**	**(17.1)**	(18.2)	(0.1)	(18.3)
Profit for the financial period attributable to equity shareholders		**55.8**	**(0.3)**	**55.5**	53.8	(1.1)	52.7

Earnings per share							
Basic	8	**28.8p**		**28.6p**	27.7p		27.2p
Diluted	8	**28.4p**		**28.2p**	27.5p		26.9p

All results relate to continuing operations of the Group.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**52 weeks to 28 March 2014 £m**	52 weeks to 29 March 2013 £m
Profit for the period		**55.5**	52.7
Other comprehensive income			
Cash flow hedges:			
Fair value changes in the period		**(3.0)**	2.8
Transfers to inventory		**1.1**	(0.7)
Transfers to net profit:			
Cost of sales		**(0.1)**	(0.1)
Income tax on other comprehensive income	6	**0.8**	(0.7)
Other comprehensive income for the period, net of income tax		**(1.2)**	1.3
Total comprehensive income for the period attributable to equity shareholders		**54.3**	54.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	28 March 2014	29 March 2013
	£m	£m
Assets		
Non-current assets		
Intangible assets	**342.2**	342.2
Property, plant and equipment	**95.2**	90.6
Deferred tax asset	**4.4**	0.3
Total non-current assets	**441.8**	433.1
Current assets		
Inventories	**150.2**	133.2
Trade and other receivables	**52.8**	53.8
Derivative financial instruments	**-**	1.9
Cash and cash equivalents	**5.3**	7.9
Total current assets	**208.3**	196.8
Total assets	**650.1**	629.9
Liabilities		
Current liabilities		
Borrowings	**(10.3)**	(4.3)
Derivative financial instruments	**(2.1)**	(0.2)
Trade and other payables	**(159.5)**	(144.9)
Current tax liabilities	**(10.4)**	(26.3)
Provisions	**(9.0)**	(7.4)
Total current liabilities	**(191.3)**	(183.1)
Net current assets	**17.0**	13.7
Non-current liabilities		
Borrowings	**(94.6)**	(114.2)
Accruals and deferred income – lease incentives	**(28.8)**	(29.7)
Provisions	**(9.3)**	(4.2)
Total non-current liabilities	**(132.7)**	(148.1)
Total liabilities	**(324.0)**	(331.2)
Net assets	**326.1**	298.7
Shareholders' equity		
Share capital	**2.0**	2.0
Share premium	**151.0**	151.0
Investment in own shares	**(14.3)**	(13.2)
Other reserves	**(0.3)**	0.9
Retained earnings	**187.7**	158.0
Total equity attributable to equity holders of the Company	**326.1**	298.7

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to the equity holders of the Company						
				Other reserves			
	Share capital £m	Share premium account £m	Investment in own shares £m	Capital Redemption reserve £m	Hedging reserve £m	Retained earnings £m	**Total equity £m**
Balance at 30 March 2012	2.0	151.0	(14.0)	0.3	(0.7)	148.5	**287.1**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	52.7	**52.7**
Other comprehensive income							
Foreign currency translation differences for foreign operations	-	-	-	-	-	-	**-**
Cash flow hedges:							
Fair value changes in the period	-	-	-	-	2.8	-	**2.8**
Transfers to inventory	-	-	-	-	(0.7)	-	**(0.7)**
Transfers to net profit:							
Cost of sales	-	-	-	-	(0.1)	-	**(0.1)**
Income tax on other comprehensive income	-	-	-	-	(0.7)	-	**(0.7)**
Total other comprehensive income for the period net of tax	-	-	-	-	1.3	-	**1.3**
Total comprehensive income for the period	-	-	-	-	1.3	52.7	**54.0**
Transactions with owners							
Share options exercised	-	-	0.8	-	-	-	**0.8**
Share-based payment transactions	-	-	-	-	-	0.1	**0.1**
Purchase of own shares	-	-	-	-	-	(0.9)	**(0.9)**
Income tax on share-based payment transactions	-	-	-	-	-	0.3	**0.3**
Dividends to equity holders	-	-	-	-	-	(42.7)	**(42.7)**
Total transactions with owners	-	-	0.8	-	-	(43.2)	**(42.4)**
Balance at 29 March 2013	**2.0**	**151.0**	**(13.2)**	**0.3**	**0.6**	**158.0**	**298.7**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	55.5	**55.5**
Other comprehensive income							
Cash flow hedges:							
Fair value changes in the period	-	-	-	-	(3.0)	-	**(3.0)**
Transfers to inventory	-	-	-	-	1.1	-	**1.1**
Transfers to net profit:							
Cost of sales	-	-	-	-	(0.1)	-	**(0.1)**
Income tax on other comprehensive income	-	-	-	-	0.8	-	**0.8**
Total other comprehensive income for the period net of tax	-	-	-	-	(1.2)	-	**(1.2)**
Total comprehensive income for the period	-	-	-	-	(1.2)	55.5	**54.3**
Transactions with owners							
Share options exercised	-	-	2.1	-	-	-	**2.1**
Share-based payment transactions	-	-	-	-	-	1.0	**1.0**
Purchase of own shares	-	-	(3.2)	-	-	-	**(3.2)**
Income tax on share-based payment transactions	-	-	-	-	-	0.9	**0.9**
Dividends to equity holders	-	-	-	-	-	(27.7)	**(27.7)**
Total transactions with owners	-	-	(1.1)	-	-	(25.8)	**(26.9)**
Balance at 28 March 2014	**2.0**	**151.0**	**(14.3)**	**0.3**	**(0.6)**	**187.7**	**326.1**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**52 weeks to 28 March 2014 £m**	52 weeks to 29 March 2013 £m
Cash flows from operating activities			
Profit after tax for the period before non-recurring items		**55.8**	53.8
Non-recurring items		**(0.3)**	(1.1)
Profit after tax for the period		**55.5**	52.7
Depreciation - property, plant and equipment		**18.0**	19.9
Impairment charge		**0.4**	0.8
Amortisation - intangible assets		**5.3**	5.4
Net finance costs		**5.0**	6.1
Loss on sale of property, plant and equipment		**2.1**	1.7
Equity-settled share based payment transactions		**1.0**	0.1
Fair value gains on derivative financial instruments		**1.4**	(0.9)
Income tax expense		**17.1**	18.3
Decrease in inventories		**(17.0)**	13.5
Increase in trade and other receivables		**1.0**	(8.9)
Increase in trade and other payables		**10.7**	6.6
Increase/(decrease) in provisions		**6.7**	0.3
Finance income received		**0.2**	0.3
Finance costs paid		**(4.6)**	(4.2)
Income tax paid		**(35.3)**	(18.2)
Net cash from operating activities		**67.5**	93.5
Cash flows from investing activities			
Purchase of intangible assets		**(5.3)**	(3.7)
Purchase of property, plant and equipment		**(21.4)**	(16.7)
Net cash used in investing activities		**(26.7)**	(20.0)
Cash flows from financing activities			
Net proceeds from exercise of share options		**2.1**	0.8
Purchase of own shares		**(3.2)**	(0.9)
Proceeds from loans, net of transaction costs		**305.7**	202.0
Repayment of borrowings		**(326.0)**	(239.0)
Payment of finance lease liabilities		**(0.3)**	(0.3)
Dividends paid		**(27.7)**	(42.7)
Net cash used in financing activities		**(49.4)**	(80.1)
Net (decrease)/increase in cash and bank overdrafts		**(8.6)**	(7.0)
Cash and cash equivalents at the beginning of the period	9	**3.9**	10.9
Cash and cash equivalents at the end of the period		**(4.7)**	3.9

1. **Basis of preparation**
The consolidated financial statements of Halfords Group plc and its subsidiary undertakings (together "the Group") are prepared on a going concern basis and under the historical cost convention, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments (IAS 39 "Financial instruments: recognition and measurement") and share based payments (IFRS 2 "Share-based payment").

The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m.

The accounts of the Group are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 52 weeks to 28 March 2014, whilst the comparative period covered the 52 weeks to 29 March 2013.

The preparation of consolidated financial statements in conformity with Generally Accepted Accounting Principles requires the use of accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies. These judgements and estimates are based on historical experience and management's best knowledge of the amounts, events or actions under review and the actual results may ultimately differ from these estimates. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are, where necessary, disclosed separately.

2. **Operating expenses**

For the period	**52 weeks to 28 March 2014 £m**	52 weeks to 29 March 2013 £m
Selling and distribution costs	**359.1**	336.1
	359.1	336.1
Administrative expenses before non-recurring items	**67.3**	62.9
Non-recurring administrative expenses	**0.2**	1.0
	67.5	63.9
	426.6	400.00

3. **Operating profit**

For the period	**52 weeks to 28 March 2014 £m**	52 weeks to 29 March 2013 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(income) as categorised by nature:		
Operating lease rentals:		
- plant and machinery	**1.8**	1.7
- property rents	**90.0**	91.0
- rentals receivable under operating leases	**(5.0)**	(5.5)
Landlord surrender payments	**(3.4)**	(0.9)
Loss on disposal of property, plant and equipment	**2.1**	1.7
Amortisation of intangible assets	**5.3**	5.4
Depreciation of:		
- owned property, plant and equipment	**17.5**	19.4
- assets held under finance leases	**0.5**	0.5
Impairment of property, plant and equipment	**0.4**	0.8
Trade receivables impairment	**0.3**	0.2
Staff costs	**189.2**	166.8
Cost of inventories consumed in cost of sales	**422.2**	384.1

4. Non-recurring items

For the period	**52 weeks to 28 March 2014 £m**	52 weeks to 29 March 2013 £m
Non-recurring operating expenses:		
Lease guarantee provision[a]	**(0.2)**	(1.0)
Onerous lease provision[b]	**-**	1.2
Impairment of Property, Plant & Equipment[c]	**0.4**	0.8
Non-recurring items before tax	**0.2**	1.0
Tax on non-recurring items [d]	**0.1**	0.1
Non-recurring items after tax	**0.3**	1.1

(a) A non-recurring expense of £7.5m was incurred in 2011. This expense related to the creation of a provision for the potential liabilities arising from lease guarantees provided by Halfords prior to July 1989. The guarantees were provided to landlords of properties leased by Payless DIY (now part of Focus DIY) when both Halfords and Payless DIY were under ownership of the Ward White Group. Focus DIY entered into administration in May 2011. In the current year the continued settlement of the Group's guarantor obligations has resulted in a release of £0.2m (2013: £1.0m) of the original amounts provided.

(b) A charge incurred in the period relating to two stores where the present value of expected future cash-flows is deemed to be insufficient to cover the lower of cost of exit or value in use.

(c) Impairment charge in respect of property, plant and equipment where the carrying amount of these assets has been deemed to exceed the recoverable amount.

(d) The tax charge of £0.1m represents a tax rate of 23% applied to non-recurring items after adjusting for the non-deductibility of the asset impairment charge and settlements to release Halfords from its guarantor obligations under the leases. The prior period represents a tax charge at 24% on all current year non-recurring items adjusted for the non-deductibility of the asset impairment charge and settlements to release Halfords from its guarantor obligations under the leases

5. Finance income and costs

Recognised in profit or loss for the period	**52 weeks to 28 March 2014 £m**	52 weeks to 29 March 2013 £m
Finance costs:		
Bank borrowings	**(1.3)**	**(2.1)**
Amortisation of issue costs on loans	**(1.0)**	**(1.7)**
Commitment and guarantee fees	**(1.1)**	**(1.2)**
Costs of forward foreign exchange contracts	**(0.3)**	**(0.1)**
Interest payable on finance leases	**(0.7)**	**(0.7)**
Other interest payable	**(0.8)**	**(0.5)**
Finance costs	**(5.2)**	**(6.3)**
Finance income:		
Bank and similar interest	**0.2**	**0.2**
Other interest receivable	**-**	**-**
Finance income	**0.2**	**0.2**
Net finance costs	**(5.0)**	**(6.1)**

6. Taxation

For the period	**52 weeks to 28 March 2014 £m**	52 weeks to 29 March 2013 £m
Current taxation		
UK corporation tax charge for the period	**20.1**	21.5
Adjustment in respect of prior periods	**(0.7)**	(1.8)
	19.4	19.7
Deferred taxation		
Origination and reversal of timing differences	**(1.8)**	(1.8)
Adjustment in respect of prior periods	**(0.5)**	0.4
	(2.3)	(1.4)
Total tax charge for the period	**17.1**	18.3

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

For the period	**52 weeks to 28 March 2014 £m**	52 weeks to 29 March 2013 £m
Profit before tax	**72.6**	**71.0**
UK corporation tax at standard rate of 23% (2013: 24%)	**16.7**	**17.1**
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**1.5**	**1.2**
Employee share options	**(0.5)**	**(0.2)**
Other disallowable expenses	**0.4**	**1.9**
Adjustment in respect of prior periods	**(1.2)**	**(1.4)**
Impact of overseas tax rates	**(0.5)**	**(0.4)**
Impact of change in tax rate on deferred tax balance	**0.7**	**0.1**
Total tax charge for the period	**17.1**	**18.3**

In this financial period, the UK corporation tax standard rate was 23% (2013: 24%).

The effective tax rate of 23.5% (2013: 25.7%) differs from the UK corporation tax rate principally due to the non-deductibility of depreciation charged on capital expenditure and other permanent differences arising in the period.

The tax charge of £17.1m (2013: £18.3m) includes a charge of £0.1m (2013: £0.1m) in respect of tax on non-recurring items, as detailed in note 4.

An income tax credit of £0.8m (2013: £0.7m charge) on other comprehensive income relates to the movement in fair value of forward currency contracts outstanding at the year end. No other items within other comprehensive income have a tax impact.

The Group engages openly and proactively with tax authorities both in the UK and internationally, where it trades and sources products, and are considered low risk by HM Revenue and Customs ("HMRC"). The Group is fully committed to complying with all of its tax payment and reporting obligations throughout the business.

In FY14 the contribution to the UK Exchequer from both taxes paid and collected exceeded £157.9m with the main taxes including corporation tax £35.3m, net VAT £49.8m, PAYE £17.1m, Employees National Insurance Contributions £8.8m, Employers National Insurance Contributions £11.2m and Business Rates £35.6m.

7. Dividends

For the period	**52 weeks to 28 March 2014 £m**	52 weeks to 29 March 2013 £m
Equity – ordinary shares		
Final for the 52 weeks to 29 March 2013 – paid 9.10p per share (2013: 14.00p)	**17.6**	27.2
Interim for the 52 weeks to 28 March 2014 – paid 5.20p per share (2013: 8.00p)	**10.1**	15.5
	27.7	42.7

In addition, the directors are proposing a final dividend in respect of the financial period ended 28 March 2014 of 9.10p per share (2013: 9.10p per share), which will absorb an estimated £18.1m (2013: £17.6m) of shareholders' funds. It will be paid on 1 August 2014 to shareholders who are on the register of members on 4 July 2014.

8. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares excludes shares held by an Employee Benefit Trust and has been adjusted for the issue/purchase of shares during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 28 March 2014.

The Group has also chosen to present an alternative earnings per share measure, with profit adjusted for non-recurring items because it better reflects the Group's underlying performance.

For the period	**52 weeks to 28 March 2014 Number of shares m**	52 weeks to 29 March 2013 Number of shares m
Weighted average number of shares in issue	**199.1**	199.1
Less: shares held by the Employee Benefit Trust (weighted average)	**(5.1)**	(4.8)
Weighted average number of shares for calculating basic earnings per share	**194.0**	194.3
Weighted average number of dilutive shares	**2.9**	1.5
Total number of shares for calculating diluted earnings per share	**196.9**	195.8

For the period	**52 weeks to 28 March 2014 £m**	52 weeks to 29 March 2013 £m
Basic earnings attributable to equity shareholders	**55.5**	52.7
Non-recurring items (see note 4):		
Operating expenses	**0.2**	1.0
Tax on non-recurring items	**0.1**	0.1
Underlying earnings before non-recurring items	**55.8**	53.8

8. Earnings per share (continued)

Earnings per share is calculated as follows:

For the period	**52 weeks to 28 March 2014**	52 weeks to 29 March 2013
Basic earnings per ordinary share	**28.6p**	27.2p
Diluted earnings per ordinary share	**28.2p**	26.9p
Basic earnings per ordinary share before non-recurring items	**28.8p**	27.7p
Diluted earnings per ordinary share before non-recurring items	**28.4p**	27.5p

9. Analysis of movements in the Group’s net debt in the period

	At 29 March 2013	Cash flow	Other non-cash changes	**At 28 March 2014**
	£m	£m	£m	**£m**
Cash and cash equivalents at bank and in hand	3.9	(8.6)	-	**(4.7)**
Debt due after one year	(103.3)	20.3	(1.0)	**(84.0)**
Total net debt excluding finance leases	(99.4)	11.7	(1.0)	**(88.7)**
Finance leases due within one year	(0.3)	0.3	(0.3)	**(0.3)**
Finance lease due after one year	(10.9)	-	0.3	**(10.6)**
Total finance leases	(11.2)	0.3	-	**(10.9)**
Total net debt	(110.6)	12.0	(1.0)	**(99.6)**

Non-cash changes include finance costs in relation to the amortisation of capitalised debt issue costs of £1.0m (2013: £1.7m) and changes in classification between amounts due within and after one year.

Cash and cash equivalents at the period end consist of £5.3m (2013: £7.9m) of liquid assets and £10.0m (2013: £4.0m) of bank overdrafts.

10. Other information

The financial information set out above does not constitute the Company's statutory accounts for the 52 weeks ended 28 March 2014 or the 52 weeks ended 29 March 2013 but is derived from those accounts. Statutory accounts for 2013 have been delivered to the registrar of companies, and those for 2014 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2013 or 2014.